

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GALLATIN COUNTY CLERK

For The Year Ended
December 31, 2003

The Auditor of Public Accounts has completed the Gallatin County Clerk's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$17,020 from the prior year, resulting in excess fees of \$24,302 as of December 31, 2003. Revenues increased by \$113,346 from the prior year and expenditures increased by \$96,326.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

On March 31, 2003, \$448 of the Gallatin County Clerk's deposits of public funds were uninsured and unsecured by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Zubaty, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable George Zubaty, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Gallatin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 20, 2004

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Fees For Services	\$	3,308
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Fiscal Court		22,046
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	223,709
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Usage Tax		547,000
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Tangible Personal Property Tax		551,074
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Late Fees		2,896
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Licenses-

Fish and Game		9,700
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Marriage		3,002
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Occupational		3,340
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Deed Transfer Tax		26,104
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Delinquent Tax		90,899
		1,457,724

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	7,831
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Real Estate Mortgages		23,294
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Chattel Mortgages and Financing Statements		24,914
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Powers of Attorney		522
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All Other Recordings		13,933
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Charges for Other Services-

Copywork		4,749
		75,243

Other:

Miscellaneous		386
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Interest Earned		575
		575

Total Revenues	\$	1,559,282
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The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	173,537	
Usage Tax		532,825	
Tangible Personal Property Tax		207,414	
Licenses, Taxes, and Fees-			
Fish and Game		9,443	
Delinquent Tax		11,093	
Legal Process Tax		8,470	\$ 942,782

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	59,773	
Delinquent Tax		9,347	
Deed Transfer Tax		24,799	
Occupational Licenses		3,181	
Loan Repayment		10,000	
Miscellaneous		782	107,882

Payments to Other Districts:

Tangible Personal Property Tax	\$	261,844	
Delinquent Tax		49,345	311,189

Payments to Sheriff 623

Payments to County Attorney 12,697

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	49,229	
Part-Time Salaries		4,306	
Overtime		378	

Employee Benefits-

Employer's Share Social Security		7,796	
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The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Contracted Services-		
Advertising	\$	704
Printing and Binding		3,063
Materials and Supplies-		
Office Supplies		3,304
Election Supplies		6,964
Other Charges-		
Copier Lease		1,722
Conventions and Travel		1,606
Dues		350
Postage		5,324
Returned Checks		432
Telephone		2,601
Tax Bill Preparation		587
Computer Service		5,182
Miscellaneous		424
		<u>\$ 93,972</u>
Total Expenditures		<u>\$ 1,469,145</u>
Net Revenues		\$ 90,137
Less: Statutory Clerk Salary	\$	59,199
Training Incentive Benefit		3,036
		<u>62,235</u>
Excess Fees		27,902
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2003		\$ 24,302
Payments to Fiscal Court - April 1, 2004		<u>24,302</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of March 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$448 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of March 31, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	50,000
Uncollateralized and uninsured	<u>448</u>
Total	<u>\$ 150,448</u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 4. Lease

The office of the County Clerk was committed to a lease agreement with Toshiba for a copier. The agreement requires a monthly payment of \$140 for 60 months to be completed on February 1, 2005. The total balance of the agreement was \$1,820 as of December 31, 2003.

COMMENT AND RECOMMENDATION

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

None

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Clerk should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Clerk should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Clerk could document this by initialing the quarterly financial report.
- The Clerk should periodically compare invoices to payments. The Clerk could document this by initialing the invoices.
- The Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.

County Clerk's Response:

None

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Zubaty, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Gallatin County Clerk for the year ended December 31, 2003, and have issued our report thereon dated August 20, 2004. This was a special report on the County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Gallatin County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 20, 2004

